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Managing the Financial Supply Chain During the Downturn

The financial supply chain management agenda is changing as the economic slowdown impacts business flows.

Concerns today range from foreign exchange (FX) and raw material pricing volatility to credit unavailability, investment insecurity and industry consolidation within the financial market. All are serious issues, but currently treasurers and finance directors are expressing greater concern about fundamental issues such as substantially reduced orders, which can affect the viability and success of their core business. Even though some industries have experienced a slight, temporary increase in orders, management tends to question the sustainability of these upticks.

In response, most financial institutions are becoming more innovative in financing the physical supply chain and finding new ways to inject needed liquidity. For example, on the procurement side, banks are helping to expand information on credit and ultimate performance risk, and are advising procurement centres on how to analyse and rate suppliers.

Today, corporates want more financial information, and their banks need to provide tools to allow this and be able to explain to their corporate clients the different methodologies they can use to identify the full range of risks.

Corporate treasurers need a stable and attractive financing solution that includes the terms and conditions required by their suppliers. Consequently, many corporates see a benefit in directly involving important business partners in the supply chain finance strategy.

End-to-end liquidity and financial planning are increasingly becoming a part of the negotiation between buyers and sellers in order to eliminate avoidable costs and risks. Such a partnership approach ensures better information management and forecasting, and reduced risk mitigation and financing cost.

Corporates are looking for strong commitments from their relationship bank to support their suppliers during this tough economic climate. Buyers are trying to help their suppliers survive, because letting them go under may have a damaging knock-on effect. In most manufacturing industries, replacing a core supplier takes over 12 months.

More Effective Support

Most industrial sectors and international banks have recognised the advantages of supporting the supplier and buyer infrastructure in a more effective way.

Particularly on the procurement side, there is increased demand from buyers for financial support to be extended to core suppliers. Buyers are seeking a more detailed understanding of their suppliers' underlying business case and its dynamics. The correct selection of suppliers, based on financial analysis, is a crucial aspect of this process, just as the support of core suppliers is vital for the entire business.

Supplier ratings are constantly changing, and buying entities need to constantly review and assess their evaluation methods as well as policies and strategies. Greater cooperation between business partners and improved information exchange is crucial to success here.

Traditional financing is still important and certainly has not disappeared, but banks and corporates need to be more creative in providing increased liquidity and credit to the different layers of companies. Bank relationships need to become true partnerships covering physical and financial supply chain topics.

Web-based Solutions

Corporate treasurers can use electronic systems and web-based solutions to better link their treasury systems with their banks' systems, and they can improve other processes along the supply chain by implementing e-solutions on the billing side, for example.

Additionally, treasurers can link their existing Enterprise Resource Planning (ERP) and IT systems with third-party systems to gain greater visibility of their cash flows and physical work flows. Electronic platforms, data exchange and management tools are also used to support sales and to manage accounts receivable finance programmes. Such portals and services help leverage efficiencies and force process changes across the financial supply chain. Furthermore, they encourage broader cooperation with service providers and keep the focus on core business.

To become more efficient, a corporate must focus on its bank relationships and understand what it wants from them. If the corporate operates internationally, then there is a greater dependence on the banks' network and global systems. To mitigate risk, a corporate needs the right information at the right time in the right place.

Many business cases require a global strategy to be executed locally. Therefore, it is crucial to involve all stakeholders and business partners at every step. Because of their current importance, supply chain and working capital enhancement projects are receiving C-level management support.

Rethink Your Business Strategy

Companies can use the economic crisis as an opportunity to re-think their business strategy and focus on a comprehensive operational model and management system. An appropriate reaction to current challenges requires a company to break down existing business-unit silos and cooperate with strategic business partners.

Corporates and their counterparties are engaging in strategic dialogue about how to make their business relationship more efficient. They want strategic partnerships rather than buying relationships. This will require a change in behaviour and more integrated cooperation on managing the financial supply chain.